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Applied profit sharing

Cleveland, O.

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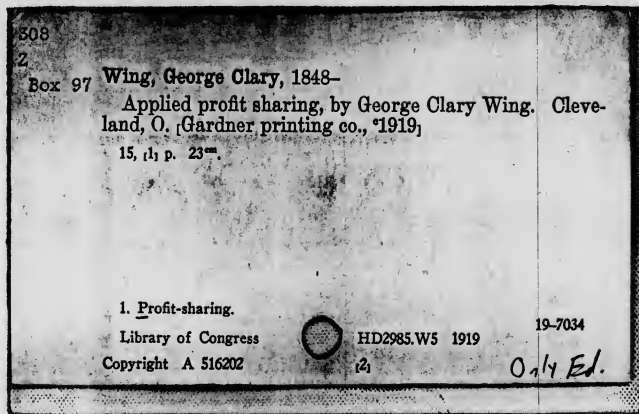
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APPLIED PROFIT SHARING

BY

GEORGE CLARY WING

Hawaii, B.A.

CLEVELAND, OHIO



APPLIED
PROFIT SHARING

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CLEVELAND, OHIO



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APPLIED PROFIT SHARING

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I

The division of profits among those who are more or less connected with their earning is by no means a modern proposition. Students of industrial conditions, enthusiasts in social betterment matters, here and there a retired beneficiary of the contrary principle, and, occasionally active business men and manufacturers, for many years, have addressed themselves to a theoretical consideration of the subject, with varying degrees of hopefulness and zeal. Besides, the plan, as sometimes conceived, has been actually tried, though, certainly, neither to an extent nor with results that entitle the principle, as broadly claimed, to rank among the accepted rules of economic affairs.

To what a small extent such plans have become a fixed part of the industrial economy, may be judged by the fact that at this time (1912), the United States Department of Commerce and Labor, which is specially charged with the collection of statistics of the nature in question, when applied to for information in the connection, is obliged to reply, that it has no publications, or data, whatever, upon the subject. Instances of trials of the sort, however, have been published, from time to time, and these may be supplemented by individual experiences at hand. Though by no means numerous, or conducted in all cases under very recurrent conditions, and invariably combined and confused with other merely analogous matters, they, nevertheless, amply serve to point the way to the circumstances to which profit sharing, in the more accurate signification of the phrase, is adapted, and the extent to which it may and may not be applied.

The plans, more especially in concerns of lesser magnitude than the Steel Company and its corporate peers, have generally taken into account a candidate's length of service, his wages, ability to influence business, efficiency, disposition towards thrift and saving, and with these or similar considerations as the main elements, have developed a system whereby certain, by no means extravagant bonuses, extra allowances or values, are made over, at intervals, to the persons and

in the proportions determined, either by way of cash, or partly in cash, company stock or bonds, loans, credits upon special savings and insurance accounts, or otherwise.

These benefits are never in derogation of the regular salary or wages, but in addition thereto.

Sometimes, to this end, a predetermined amount, say eight or ten thousand dollars in an establishment employing five hundred men, is fixed each year irrespective of profits, and divided among them according to the prescribed rules; or, the benefit is arrived at by treating the total pay roll of those who are to share, as a contribution to the capital invested in the business, and entitled to its pro rata of net profits on the same terms with an equal amount of money paid in by stockholders to the capital stock; or, out of profits, after shareholders have been allowed the prevailing rate of interest on their money invested, and, quite often, only after certain further percentages have been deducted from the sum, otherwise distributable, for such objects as free libraries for the employees, recreation halls and the like, or for "educational purposes" of various sorts, and "provident funds," as for the care of workmen when laid off, or sick, or for the expenses of their burial.

So far as actual money is concerned, it is not probable that any of these plans ever yielded more than from three to five per cent of the salaries, wages or other basis of the calculations involved, nor, have accomplished even approximately, as satisfactory results, from the point of view of those chiefly concerned, as would have followed a simple and unconditional raise of pay to the same extent. Three to five per cent on the inconsiderable sums employees are treated as having invested under the conditions stated, certainly does not make the opportunity for gain a very exceptional one. In fact, although acceptable, the chance of a return thus afforded is too insignificant to put the recipients on a par with partners in the enterprise, or arouse in them a partner's loyalty and zeal.

When, as is usually the case, the payment of the dividends themselves is unduly postponed, or is coupled with an obligation that they be loaned or deposited with the firm or company on interest, or such dividends are paid by way of a credit on a subscription to the company's stock, or, furthermore, when dividend allowances and payments are associated with and made a part of some ready-made plan

for lecture courses, assembly halls, amusement parks or bath systems, the entire scheme assumes a benevolent rather than a business aspect and loses favor accordingly. Although assimilated to regular stockholders, participants find they are to be treated differently, and as a class of somewhat inferior company members, who are unversed in the use of money to the best advantage and are to be looked after accordingly. They see that, while the gross amount of profits distributed is plainly enough recognized as their due, a not inconsiderable share of that total is being appropriated to purposes appointed, not by themselves exactly, but by the company for whom the profits, in the first instance, were earned.

Regular stockholders get their entire modicum of profits in cash. If they wish parks, amusements, insurance, or social opportunities, they can select and provide the same when and according to their individual tastes and abilities, but assimilated stockholders, like themselves, must not only consent to the use of their dividends for indulgences of this nature, but that the selection and procurement of the same shall belong to those outside of their ranks and having altogether different social standards and inclinations.

As a rule, workmen, and those with workmen's income, do not always crave, or are as much concerned about the superfluities of the rich as is sometimes supposed, and they do not care to have such luxuries thrust upon them. They resent, also, the implication that they would be the better for certain prescribed lectures, entertainments, investments and baths, and are apt to begrudge the unction and self-satisfaction which, it is assumed, the planners of such "betterments" feel in the connection.

On the whole, they construe such betterments somewhat in the light of wage buyers' cajoleries, and, at best, as shrewdly arranged to enure, in any event, as much to the betterment of the plant itself as of those to whose efforts the improvements are really due.

Furthermore, in these days of enlightened and forced state inspection, employees whose voices and votes have been instrumental in bringing about such requirements, are fully aware that they are entitled, as a matter of law and right, to safe and wholesome places in which to work, and are not dependent upon owners and employers for the same. Whatever may have been the deficiencies in these respects in the past, they will not occur and exist again, if officials elected by themselves do their duty. They therefore look upon physi-

cal betterments and conditions beyond those made compulsory upon proprietors by the state, as unsolicited by themselves, supererogatory, and without proper place in practical affairs. In decisions affecting their means of livelihood and personal conduct such extra provisions, in their opinion, should not be taken into account, and as a fact, such provisions have no influence, either in such matters, or in the matter of the loyalty or general attitude of workmen toward their employers in times of stress, or even in the manner or quality of their regular daily service.

In refusing to regard any distribution of profits in kind, or rather kindness, as a distribution within the province of concerns that are organized for money making purposes, employees are in strict accord with all pointings of the law itself.

All corporations "for profit," for instance, are required to be formed according to special formulas and to constitute a distinct class, by themselves, from corporations having benevolent aims and ends. The latter class are especially designated by the statutes as "corporations not for profit." There is no provision for a third and intermediate kind of company with the right and authority to gain profits, and apply the same to systems of philanthropy and social improvement. Those having the sworn direction of the affairs of corporations of either class, presumably will hold to the distinction the law thus makes, and neither allow a company which is benevolent in its origin to engage in works "for profit," nor one formed exclusively "for profit," to busy itself to earn "dividends" that are payable, by way of cash or betterments, to those by whom a full hire has already been exacted and received.

In this view, if profit sharing has any place in business and industrial associations, it should be confined and only applied to measures of administration that are clearly promotive of that kind of profits that is distributable among regular stockholders. Any proposition that only vaguely contributes to this end should be resolved in favor of these permanent company members, rather than employees at large, whose relation to the company is always remote, unstable, and without risk of loss, and is originally fixed by considerations which in no manner are concerned with the company's only reason for existence, or dependent upon the company's success.

On the whole, so far as profit sharing has involved welfare work, been associated with efforts at social betterment or generally been

paternal in its character, it has at best been merely tolerated by those most concerned, and has been attempted with but doubtful right by business concerns and with no marked benefit to anyone. Such efforts, in fact, do not belong to the definition.

II

Divesting the phrase of all connection with social improvement, and leaving organized efforts of that nature to other agencies than companies deliberately formed for gain alone, it will still be found that the proposition has little pertinency to the rank and file of employees in the great army of wage earners in general. With negligible exceptions, this body comprises all those who are paid by the hour, day, week or piece, and includes manual and routine service of every description, from work of the rudest sort to that calling for a high degree of skill and experience. For the purpose of the present inquiry it may be taken as representing ninety-five per cent of the industrial workers of the day, such as bookkeepers, clerks, salesmen and other office or quasi-office men, machinists, drivers, fabricators, tenders, material handlers, electricians, tool and patternmakers, factory, mill and shop operatives, helpers, and general hands and laborers, who make up the outside force.

Here the duty is mostly routine, and where, if judgment and responsibility are called for at all, it is within a narrow range, and but intermittently exercised. A regular market wage prevails, which is little affected by individual traits and fitness. If physically equal, one man is no better than another in his grade, and is never in position to decide the common purpose and result. This last, of course, is the annual profit, which is neither larger nor smaller by reason of the conduct and course of individual workmen. Profit accordingly owes them nothing which the agreed regular wages have not fully paid. To give anything more, by way of bonuses or otherwise, to all alike,—as is invariably regarded by the recipients themselves,—is, in itself, nothing else than the indefensible process in business of paying a higher than the market rate of wages, to serve as a thinly veiled speeding-up process, and be compensated for by augmented company gains in the end. Indeed, whenever general bonuses are paid, it is never, in reality, from the sense of gratitude that prompts one to share a gain with those associated with its getting, nor to stimulate a reasonable interest and zeal, which should be at the foundation of true profit sharing, but, at best, as in all postponed rewards, service

payments, and co-operative stock apportionments, is simply a business measure and precaution, to prevent workmen from being tempted away by offers of other manufacturers, and to hold a force together and preserve its unit efficiency from one bonus distribution to the next.

Even then, as is sure to be the case where foreign-born workmen are involved, if the bonus is too generous, a decided contingent is likely to take the largess and their leave at the same time, with the result that the force, as a whole, loses as much by desertion, on such occasions, as it has profited before, by continuous performance. Gratuities under these conditions are solely for the good of the service, and outlays therefor are chargeable to overhead expenses as would be the cost, for instance, of a fence around a plant or other physical means for preserving the integrity of the force.

On the other hand, to single out members of a group where every one has substantially the same duties, and no one can be helpful beyond the same, sounds in favoritism and is sure to engender ill-feeling and discontent.

In any case, the practice of bonus-giving, when once begun, cannot be interrupted since, if the stated rewards are withheld in a year of losses, employees feel that somehow they have been done out of their dues and become dissatisfied accordingly. They do not understand that true partners must share losses as well as profits.

III

Throughout the industrial establishments of the country as a whole, for every nineteen employees of the general class above referred to, there is one man whose individual traits and efficiency do count in the grand result. Without his aptitudes and those of his fellows, the general mass of workers would become incoherent and disappear; indeed would never have come together. These are the men, in every establishment, upon whom rests the responsibility of conceiving, getting, and successfully carrying out the various undertakings for which the company was originally formed, and out of which the ultimate profits must come.

Besides proprietors, and the firm-members of a company, the class includes all salaried officers of corporations, managers, superintendents, financial-men, heads of departments, purchasing agents, and trusted advisers in every new and complicated situation. They are men with natural capacity, greatly heightened by experience; their

work is never merely routine, but, at all times, calls for the exercise of a high degree of judgment. They are generally engaged by the year at a fixed compensation which is increased by no definite rule, but only *per saltum*, and, at times, perhaps, when a prosperous issue of some especially foregone task, or the pointed commendation of a competitor, brings their worth to the front anew, and moves the employer to appreciative acts.

These people form a distinct corps, that ever has the welfare of the main body as its paramount concern; they identify themselves completely with this body and habitually say "we" and "our" in referring to the same. Were it not for the salaries their relation would be wholly unselfish (as it is in any event so far as the quality of their service is concerned) inasmuch as the class seldom has any money interest in the company apart from their salaries. For that matter, the salaries are not excessive. Of the forty thousand employees of the United States Steel Company, not two thousand have salaries greater than twenty-five hundred dollars a year.

While this corps is naturally a favorite with the company's administration and ownership, which latter stands ready at all times to show its friendly disposition by offers of free "trips to Europe," extra vacations, rest spells and various minor privileges and considerate treatment, and thoroughly realizes the importance of retaining the force unbroken, yet, the one thing really wished for, the opportunity to acquire a substantial and transmittable independency out of their life-work, is rarely afforded them.

This, not entirely nor in every case, because of illiberality on the part of the employers who often have attempted and do attempt to bring about the desired condition, but largely, because there has appeared no way of doing this that would at the same time be just to the company under all conditions, generous to the employees, and applicable alike to the deserving of today and their equally meritorious successors in the years to come.

The Steel Company has very satisfactorily worked out a plan for its own people. This, briefly, sets aside each year one per cent of the net earnings when between eighty and ninety million dollars, with an additional one-fifth of one per cent for each additional million, for distribution among the upper salaried men according to the judgment of the Finance Board. Supplemental to this feature is a fixed provision by which employees can buy the company's stock at something less than current quotations, and, for attractive bonuses, proportioned

to the number of shares, to such of these buyers as retain their stock for a given period. Other great corporations with modifications have extensively adopted this open stock-selling feature, and their employees have appreciated the opportunity thus afforded to obtain a substantial and remunerative foothold in the companies they serve.

But the Steel Company is a class by itself, and conditions it must conform to are often self-prescribed. Its upper men are not beneath one roof, and in a position to judge of each other's work and worth and, consequently, to disagree with the estimate that others' place upon the same. On the contrary, such men, in the great corporations, are isolated from one another both actually, by territorial conditions, and by the very greatness of the work they are engaged in. The yearly findings of a Finance Board under such conditions have a consequent note of finality and satisfactoriness that would otherwise not characterize them, and do not, with each award, arouse fresh discussions as to the fairness of the same, and start new periods of hardly repressed discontent.

Unlike the corresponding class in smaller concerns, the uncertainty during each year as to both the right to and the amount of the prospective bonus, is not so constant, and disappointments in the end are not so keen, nor so likely to react unfavorably on the service, as where the employees are few, and their individual conduct and disposition more measurably affect the general results.

In the smaller establishments, those, for instance, where the working force does not exceed a thousand men, any actual sale or distribution of stock to employees on a fixed plan is impracticable for the reason that, in concerns of this order, the capital stock is generally fully subscribed in the beginning, or so nearly subscribed that the amount in the treasury will not suffice for the purpose. To inaugurate a policy of stock sales under these conditions would be as short-sighted and futile as to advance a regiment to the firing line with but one round of cartridges in their belts; the first volley would be as effective as under any other circumstances, but the battle value of the regiment, so far as it was based upon the ability to repeat its volleys, would end right there.

The unpreparedness of the average industrial establishment to maintain a system of stock distribution on the relative scale of the Steel Company, will be realized when it is considered that that company has a reserve of more than two hundred million dollars of shares, par, available to issue for the purpose.

Few establishments, as now organized, have any such resource, even comparatively, and, the occasional well intended, but feeble attempts that have been made to follow in the lead of the great corporations and disseminate company stock among valued employees, have depended upon contributions for the purpose by kindly disposed members, and necessarily have proved only complimentary in amounts, and with no possibility of recurrence.

But the desirableness of holding together and reinforcing from time to time, this force of picked men by rewards that are more responsive to success than salaries, is continuous from year to year and generation to generation. Indeed what was mere expediency in the early career of a company, when its originators and owners were active participants in its daily affairs, becomes nearer and nearer a necessity as the formative period passes and the ownership is handed down to another generation.

The greater the success of those who build up a business, the less likely is it that their sons will succeed to their special talents, tastes or motives for exertion, as they will to their responsibilities and ownerships; and this, with the suspension of the activities of company members by reason of age, and, the ever increasing vesting of stock-ownership in widows, daughters, trustees and estates, leaves the actual conduct of the older corporations entirely to the special class of employees in question. Nothing so forcibly brings out this condition, and the dependency of stockholders on those with a different interest in the company than their own, as the roll-call at the annual meetings of a company that has passed the generation of its founders and attained to a full corporate seniority.

In such, youth and progressive capacity are in growing demand, and more and more become vital assets of the business. When salary is the only tie, the maximum material interest it can create is reached at an early stage of an employee's career, and, unless he personally has some other substantial reason for remaining with his company, he is liable to have a substantial interest of the sort made for him by competing companies, at the very time when his continuance in the original service would be most valuable.

All this is often realized by larger shareholders as their own retirement approaches, and, as said, they would arrange accordingly. Attempts to this end, however, in some respects, have always fallen short of the aim, been disappointing and short lived. A principal

holder of this kind, for instance, believes that the services of certain younger men are worth to the company and to him, something over and above their respective salaries, and would secure their loyalty and zeal in an accumulating degree. He frames an arrangement having the appearance at least of a sale of a considerable block of his stock, to be held by the seller until the full price is earned. He reasons that the longer the buyers stay in the service, the harder they work, and the more successful their efforts, the more strongly will they be cemented to the company, and more potent will have to be any inducement to leave. But, let the buyer or the seller in such arrangement die before the stock can be claimed; or creditors of either undertake to ascertain and subject their interests and equities in the transaction, and complications will at once arise. Such a plan has but a limited application also, since it cannot be put into effect until shareholders are found who are willing to part with stock at very attractive prices to buyers, and employees who are willing to run in debt for the price. Considered as a permanent policy, the proposition is narrow in scope and nothing else than the selling out of the interest of stockholders as they become inactive in the business, to salaried employees of the company as they become active, a course too much dependent upon individual dispositions and uncertain situations to be an accepted solution of the problem.

Any gratuitous and immediate distribution of stock must, at any rate, fail in its purpose if the donee dies, or his employment ends for other reasons, and, if the stock is sold or taken by creditors, an unwanted and, generally, unhelpful element is introduced into the company membership; mere agreements not to sell the stock, or for reversion upon a change of ownership from the donee, are impracticable, and of doubtful validity.

IV

We thus find that profit sharing, as such, has no application to mere wage-earners as that class is designated in Census and other literature, nor to schemes for betterment of the same; that, in addition, attempts to practice it with respect to this class, either with or without the betterment feature, have, on the whole, been attended with little if any advantages to any one, and, sometimes, with even the contrary results.

We have further seen that, in every business and industrial establishment of the middle or upper grade, there is always a relatively small but well defined class of employees, upon whose efficiency the fact and amount of profits appreciably depend; that their continuance in the service of a company is thus so promotive of the company's purposes and objects, that the profits themselves can and should be used to prevent a suspension or severance of such service. That while this condition is understood in modern establishments, there is nevertheless so little agreement as to a practicable and just way of thus applying profits, that the problem may be considered as still open in this country, and waiting a definite and intelligent solution.

As an effort toward this end, the writer offers the following plan, which is new and untried and, which, it is thought, must be carried out in its entirety, to succeed as intended:—

Let the management of establishments, as ability in its positions of responsibility and discretion develops, announce to the employees concerned, that thereafter and until further notice, it is the purpose of the company to allow and pay them, respectively, in addition to their regular salary, a sum that shall be equal to the amount they would be entitled to receive in dividends, from time to time, if they were each owners of a designated number of shares of the capital stock of the company.

It would seem that a simple announcement of the above character, as a part of the policy of the company, would answer all the purpose of gifts or sales of stock, for instance, without having any of the disadvantages. It would not depend upon there being stock for distribution; would not call for payments unless there are profits; would expire with a discontinuance of the service for any reason; would at all times be controlled by the company; and—a very important consideration—for the very reason that a supply of stock is not necessary for the scheme, the original donations can be more liberal, and the maintenance of the plan and its application, (without derogation of the salaries which would remain as before,) to each new case, as it arises, can be continuous and assured through the entire life of the company.

The administrative details of the plan, generally speaking, will be found sufficiently variable, to permit it to be adjusted to particular situations of different kinds.

When, for instance, the main stockholders are also the main officers of a company, and active participants in its current affairs, the employees who are to share profits, may well be determined in much the same manner, as where now, actual shares are occasionally given to employees, or sold to them on easy terms.

When, however, the principle of the proposed distribution is to be lastingly installed, for the benefit of the company and its stockholders, and the chief stockholders are not its active managers, but the very employees who are to be the subject of the profit distribution, a more careful and methodical course should be followed.

If the right and responsibility of selecting the beneficiaries, in the premises, and the amounts they are to receive, is left to the non-stockholding class in a company's force, and is not safeguarded, it is conceivable that it may be exercised in a perfunctory manner only, or under the influence of favoritism, or to strengthen a particular individual, or salaried set, in their places and policies, and protect them against inquiry and exposure. In installing the system, therefore, in its broader sense, certain cardinal rules and limitations upon the subject, should be made a part of the regulations or by-laws, or of the charter itself, by the action of the great body of the stockholders, so that a departure therefrom can readily be restrained by such stockholders, or any one of them.

These rules should enjoin conservatism as a controlling principle, and forbid action favorable to the candidates, in all doubtful cases. The basic precepts thus laid down should restrict the system, as nearly as practicable, to those salaried men whose valuable efforts comprise a large element of originality and, for the most part, appreciably affect the company's larger undertakings and aims. They should exclude, from the benefit in question, all those having work, which, however important in itself, is nevertheless made up of transactions and performances whose constant repetition constitutes the company's routine activity and business.

This latter class of employees can nearly enough be taken care of by salaries alone. A highly technical man, like a mechanical engineer, a fine textile expert, a furnace master, or chemical proficient, is, after all, only a successful member of his chosen profession, who is entitled to expect and receive an exceptional reward, but a reward only by way of a definite salary, founded upon a definite, and not a contingent service. Such employees, like surgeons, highgrade lawyers, and other strictly specialists, are hired because of their acquired

fitness to act, or decide with respect to certain peculiar situations, for which they have already studied and prepared themselves in advance, and their problems rarely vary much from the distinct precedents with which they have become familiar.

General managers, however, superintendents of great works and departments, shrewd and able buyers and salesmen, and the like, must bring to their work a marked degree of native resourcefulness and judgment. This cannot be acquired by study, but is original with the men themselves, who are constantly called upon to adjust themselves to new conditions, and, on their own initiative to decide the course to be adopted. In such a situation, they cannot, for the most part, fall back upon a knowledge of what was previously done in some parallel case, and so solve the instant problem, but must have the ability to successfully solve the dilemma in reliance on their own original traits of thoughts and temperament.

Distinctions of the above nature should be made, and, indeed expressly formulated into a written code for the guidance of those who select the employees in question, and fix the amounts of the assimilated dividends with which such employees are to be endowed. It is thought that the ultimate administration of the plan should reside, and be generally so understood, in the board of directors themselves, and not in any lesser body, or individuals; the board, in turn, might delegate a standing committee to make all the investigations needed to recommend the specific action to be taken, and it is probable that, in so doing, both the board and such committee would recognize the value and expediency, of, generally, upholding the suggestions and wishes of general managers, chiefs of divisions, and company superiors with respect to the subjects, but never to an extent that will leave, or seem to leave, the final selections and decisions with any one else than the board itself.

While a conservative policy should be followed as to the number of the persons to whom the awards are made, the reverse policy should govern with respect to the size of such awards, to the end that these should not be looked upon as mere gifts and honorariums, but, as a not ignorable business profit, which, in the opinion of the supreme official body and management of the company, the recipients are entitled to have, each year, for their own share in achieving the only purpose for which the company was formed, or should continue to exist.

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